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REED SHAW OSLER

REED STENHOUSE COMPANIES LIMITED

— has been approved by the Board of Directors as the proposed new corporate name for Reed Shaw Osler Limited. At the Annual and Special General Meeting called for February 9, 1978, shareholders of the Company will be requested to vote on By-Law No. 21 which confirms this name change.

The Osler name is particularly well known and long respected in Canada. A brokerage operation bearing that name with origins dating from 1883 was one of three founding partners of Reed Shaw Osler in 1968. Your directors feel, however, it is now appropriate that your company's name should reflect current associations and in particular the outstanding contribution of A. R. Stenhouse Reed Shaw & Partners Ltd. since our merger in 1973.

Subsidiaries throughout the world continue to operate under their existing corporate names.

PRINCIPAL SUBSIDIARIES AND AFFILIATES

(as at December 31, 1977)

AUSTRALIA

Stenhouse Reed Shaw Ltd.

BELGIUM

Stenhouse Reed Shaw N.V. S.A.

BERMUDA

Insurance Managers Limited

CANADA

Reed Shaw Stenhouse & Partners Limited

Reed Shaw Stenhouse Limited

Ducketts Limited

Roy, Arsenault & Arsenault Inc.

J. Meloche Inc.

Monnex Insurance Agencies Limited

Reed Risk Management International Limited

Charles A. Kench and Associates Limited

Employee Facts Limited

FIJI

Stenhouse Sullivan (Pacific Islands) Ltd.

FRANCE

Stenhouse France S.A.

Groupes Bach & Welman - Adaire & Flandre S.A.

Société Générale de Courtage d'Assurances S.A.

GREECE

Sten-Re (Greece) Ltd.

HONG KONG

Stenhouse South China Ltd.

MALAYSIA

Stenhouse Leow Pte. Ltd.

NEW GUINEA

Stenhouse (P.N.G.) Pty. Ltd.

NEW ZEALAND

Stenhouse Reed Shaw Ltd.

PHILIPPINES

Stenhouse Technical Insurance Services Inc.

SWEDEN

J. Akerman A.B.

SWITZERLAND

Stenhouse Reed Shaw International S.A.

THAILAND

Stenhouse Jenkid Co. Ltd.

UNITED ARAB EMIRATES

Stenhouse Reed Shaw

UNITED KINGDOM

A. R. Stenhouse Reed Shaw & Partners Ltd.

Stenhouse Reed Shaw Ltd.

Stenhouse Reed Shaw Marketing Ltd.

Sir William Garthwaite (Insurance) Ltd.

Wright Deen & Co. Ltd.

Sten-Re Ltd.

Sir William Garthwaite (Re-Insurance) Ltd.

Stenhouse Reed Shaw Underwriting Agencies Ltd.

Stenhouse Reed Shaw Life & Pensions Ltd.

Stenhouse Reed Shaw Pension Services Ltd.

Stenhouse Reed Shaw Management Services Ltd.

UNITED STATES OF AMERICA

Reed Shaw Stenhouse Inc.

Great Eastern Associates Inc.

Reed Risk Management Inc.

Reed Shaw Stenhouse International Inc.

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REED SHAW OSLER LIMITED

INSURANCE AND REINSURANCE BROKERS AND RISK MANAGERS
P.O. Box 250, Toronto Dominion Centre,
Toronto, Canada M5K 1J6
(416) 868-5500

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PHILIPPINES

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REPUBLIC OF IRELAND

Stenhouse Reed Shaw Ireland Ltd.

RHODESIA

Stenhouse Reed Shaw (Rhodesia) (Pvt.) Ltd.

SINGAPORE

Stenhouse Leow Pte. Ltd.

SOUTH AFRICA

Stenhouse Reed Shaw Africa (Pty.) Ltd.

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Stenhouse Reed Shaw Pension Services Ltd.
Stenhouse Reed Shaw Management Services Ltd.

UNITED STATES OF AMERICA

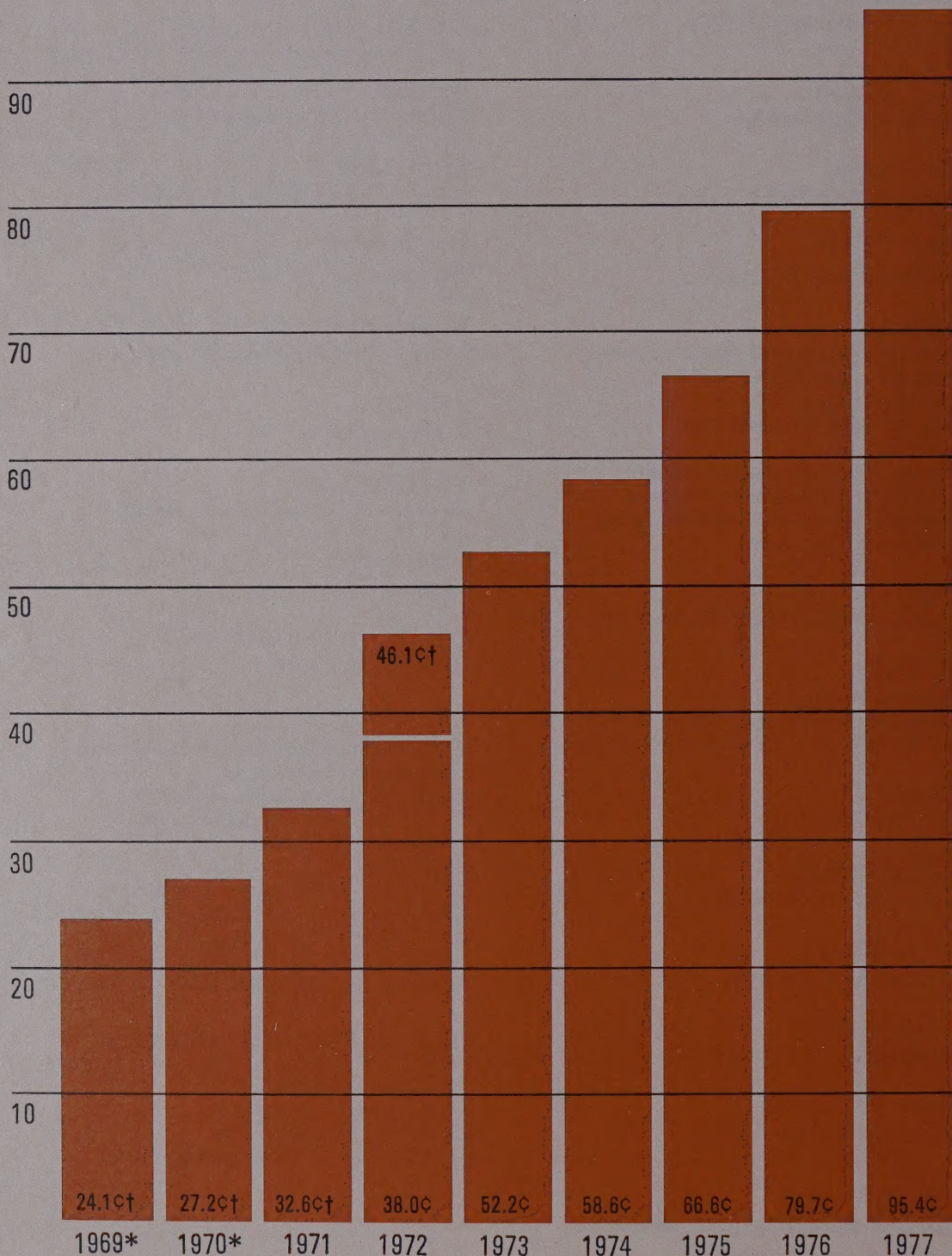
Reed Shaw Stenhouse Inc.
Great Eastern Associates Inc.
Reed Risk Management Inc.
Reed Shaw Stenhouse International Inc.



FINANCIAL HIGHLIGHTS

NET EARNINGS PER SHARE

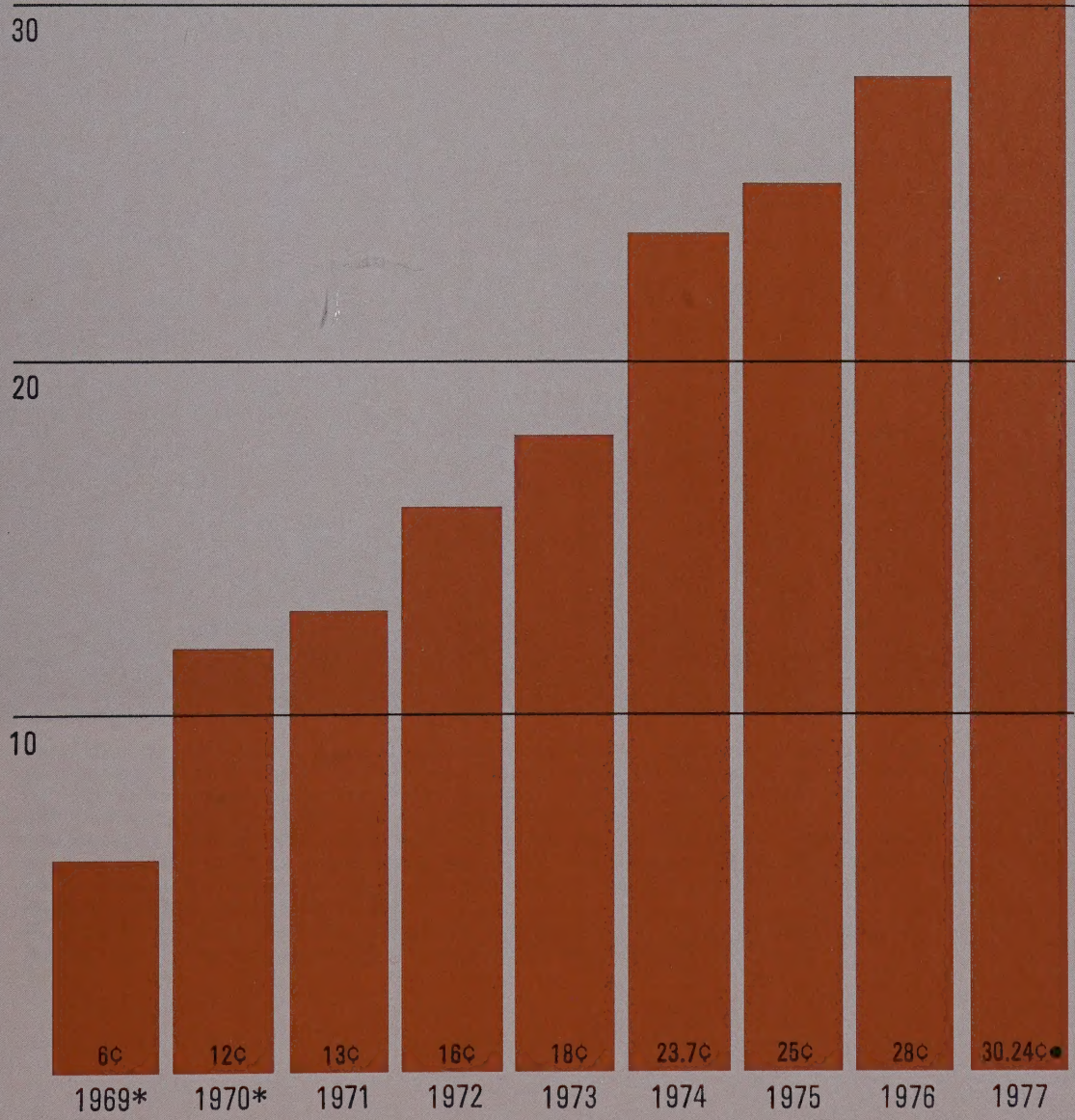
100 cents



†The merger with A. R. Stenhouse Reed Shaw & Partners Limited effective October 1, 1972 was accounted for as a pooling of interests. The restated net earnings per share for 1972 reflect this accounting concept. Net earnings per share for 1969-1971 are on an historical basis as it is not practicable to restate those amounts for the merger with A. R. Stenhouse Reed Shaw & Partners Limited.

DIVIDENDS PER SHARE

40 cents



*Adjusted to reflect share split in 1971.

•Current indicated annual dividend rate is 32.04¢ per share.



TEN YEAR SUMMARY OF OPERATING RESULTS

(in thousands)

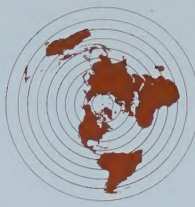
	1968*	1969†	1970†
Commissions & fees – net	\$11,051	\$12,328	\$15,432
Operating expenses	8,740	9,634	12,408
	2,311	2,694	3,024
Interest, dividends and rental income			
– net of interest on long-term debt	151	241	452
Earnings before income taxes and other items	2,462	2,935	3,476
Income taxes	1,280	1,557	1,795
Earnings before other items	1,182	1,378	1,681
Minority interest net of equity in affiliates			
Earnings before reduction of intangible assets	1,182	1,378	1,681
Reduction of intangible assets			
Net earnings	\$ 1,182	\$ 1,378	\$ 1,681
Net earnings per Class “A” share	*	24.1¢	27.2¢

1971†	1972†	1973‡	1974	1975	1976	1977
17,905	\$22,029	\$56,742	\$75,166	\$92,768	\$105,313	\$127,599
14,352	17,808	44,664	61,639	75,136	85,324	104,462
3,553	4,221	12,078	13,527	17,632	19,989	23,137
668	579	2,708	4,134	2,154	3,953	5,629
4,221	4,800	14,786	17,661	19,786	23,942	28,766
2,158	2,322	7,047	8,814	9,472	11,694	13,970
2,063	2,478	7,739	8,847	10,314	12,248	14,796
		49	102	107	39	200
2,063	2,478	7,690	8,745	10,207	12,209	14,596
			37	303	369	396
2,063	\$ 2,478	\$ 7,690	\$ 8,708	\$ 9,904	\$ 11,840	\$ 14,200
32.6¢	38.0¢	52.2¢	58.6¢	66.6¢	79.7¢	95.4¢

*Reed Shaw Osler Limited was incorporated on August 29, 1968, and subsequently acquired the businesses of three established Canadian insurance brokerage organizations. The figures for 1968 represent the unaudited pro forma combined earnings of the predecessor companies. Earnings per share for that year are consequently not applicable.

†The figures for 1969 to 1972 inclusive are the actual historic earnings of the company prior to its merger with A. R. Stenhouse Reed Shaw & Partners Limited and these figures have not been restated to reflect the merger. Earnings per share for 1969 and 1970 have been restated to reflect a share split in 1971.

‡From 1973 the figures include the consolidated earnings of A. R. Stenhouse Reed Shaw & Partners Limited which merged with the company effective October 1, 1972.



REPORT TO SHAREHOLDERS

Despite unsettled conditions in international economies, results for fiscal 1977 have been most encouraging. During the year, your company expanded into Fiji, Greece and Mexico, bringing its total international offices to 142 in 28 countries, further securing its position as the insurance broker doing the world's largest international volume of direct business.

Your company's net earnings for the twelve months' period ended September 30, 1977, rose by 19.9 per cent to \$14.2 million or 95.4 cents per share, from \$11.8 million or 79.7 cents per share in 1976. Approximately 55 per cent of our earnings emanated from overseas operations. Revenue in the period rose to \$127.6 million from \$105.3 million in the previous year. Net investment income was up 42.4 per cent.

GROWTH PROSPECTS

Management is pleased with the satisfactory results of the past fiscal year and is optimistic about future earnings growth for a number of reasons. Our number of clients, their needs and the amount of new insurance demanded in the marketplace are all increasing. Your company's widespread network of offices and indigenous insurance and reinsurance operations continue to be of great assistance in obtaining new business and retaining existing accounts in to-day's competitive environment. This international presence provides an offensive benefit as well as a defensive quality, for it enables us to attract local business and to service the needs of our multi-national clients who trade with or invest in a particular country. Corporations increasingly engaging in international business expect their insurance services to be provided on a truly international basis. Thus, your company is able to service large, complex accounts utilizing our sophisticated and innovative broking techniques in risk management, marketing, reinsurance and loss prevention engineering.

Because of its geographic spread of service facilities, our company is best placed to effect growth from acquisitions and to increase market share. With premium volume now in excess of \$1 billion, the company has the base to expand earnings. Also, when a potential partner with skills and expertise is available in a complementary market, we will use our capital for acquisition under the appropriate conditions. We will, however, continue a conservative and highly selective approach to the use of capital.

Our earnings are enhanced by investment income on substantial cash balances. Moreover, we are not subject to the pressures that confront many businesses, such as capital equipment maintenance, inventories, environmental considerations or other such social issues.

Inflation, which is averaging nearly nine per cent in the free world economies, is creating upward pressure in both insured values and insurance rates, the two components of premium. This is one reason we anticipate an increase in premium volume.

Despite relatively slow economic growth in recent years, the demand for insurance coverage throughout the world has consistently risen substantially.

On the other hand, under present conditions, where the dollar amounts under insurance contracts are increasing at a more rapid rate than the real number of risks insured, it could also be expected that commission rates will come under some pressure. This is further aggravated by the selectivity of insurance underwriters, notably in North America. In the short term these conditions will exert some pressure on our margin of earnings, but they will also, in the longer term, have a positive effect on premium volume processed by your company, and eventually have a favourable impact on earnings.

DIVIDEND INCREASE

As I indicated at the outset, earnings growth has continued at a satisfactory rate and because earnings are not cyclical, there is protection for dividends. During the past two years the dividend restraints imposed by the Government of Canada have detrimentally affected shareholders. Recently your Directors raised the annual dividend payment rate from 30.24 cents per share to 32.04 cents per share, being the 6 per cent maximum increase permitted under current Federal Government regulations. With 54% of total dividends being paid outside of Canada out of foreign source income we consider it appropriate to re-examine the present payment ratio at the time of the easing of dividend payment restraints expected in 1978.

REVIEW OF OPERATIONS

The Canadian operation again reported impressive results due to excellent and innovative efforts, major factors which will continue to bear favourably on future performance. Our size, global resources and recognized expertise will allow us continually to increase our market penetration and our revenues at a most acceptable rate. As well, the skills of our Canadian personnel have been used to develop and retain business in many other geographic areas.

Our United States operations grew significantly during 1977. We are already one of the ten largest brokers in terms of domestic business but, recognizing the vast potential of the U.S. market, we are continuing our active search for suitable acquisition candidates. Our considerable investment in recent years both by way of acquisitions and revenue development is now producing a material increase in annual income and provides a solid base upon which to expand.

In the United Kingdom our direct broking operating companies have seen a substantial

improvement in their trading results through an aggressive program for the development of new accounts and the continued servicing and support of existing business. This development has been achieved during a period of economic difficulty, which is only just beginning to improve. The important London market companies through growing international business, particularly from North America, continued to contribute substantially to the overall results.

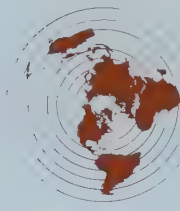
Our expanded loss engineering and technical departments made an increasing contribution to our effectiveness and there is a growing demand for their specialist services.

A year of solid achievement for the pension operations in the United Kingdom resulted in a substantial increase in profits, and life insurance sales were satisfactory given the contraction in that market. The workload of the pensions staff was greatly increased by the need to review all funds in the light of new social security legislation, and growth in this sector was encouraging.

Sten-Re Limited, the reinsurance branch of the group, continued to expand rapidly in all sections, particularly non-marine, and showed a major profit increase. During the year operations were extended into Mexico City and Athens, and further expansion is planned.

Insurance Managers Limited, the Bermuda-based subsidiary, and Reed Risk Management International Limited also experienced considerable demand for their expertise in the highly specialised fields in which they operate.

In South-East Asia disappointing results were experienced in Singapore and Malaysia, but our companies in Thailand, Hong Kong and the Philippines showed profit growth. A rationalisation of our interests in this area, including the disposal of a minority interest in a Malaysian company, will enable operations in the region to make a



useful contribution to our profits and develop a growing presence in the whole area.

In Belgium, following a merger of our existing subsidiary Cagetra with Concordia, the new Belgian company – Stenhouse Reed Shaw NV/SA – has made good progress and is poised for further growth in that country.

In France, where the company wholly owns one major insurance broking group and has an equity shareholding in Société Générale de Courtage d'Assurances S.A., our results have been disappointing. This is mainly due to lack of development growth and rising costs. In the past twelve months major changes have taken place in the Directoire and plans are advanced to rationalise our various interests. We anticipate these changes in our operation in that country will improve the situation.

The South African company's results were acceptable in the light of the current political and economic climate. Trading in Rhodesia is difficult in view of a shortage of qualified staff. The joint broking operations in Botswana and Swaziland are functioning effectively and will be responsible for a larger contribution to profits in the future.

During 1977 operations in Australia experienced a slowdown in the rapid profit expansion of the two previous years and the pre-tax profit was only marginally ahead of last year. Insurance rates softened significantly and this combined with a reduction of workmen's compensation insurance as a result of reduced economic activity had a major effect on our earnings. The program for the development of new accounts continued, however, and significant gains were made. Closer cooperation with the group in other parts of the world produced an increased involvement in existing and prospective business with international affiliation.

In New Zealand, premium volume for the year exceeded budget estimates, showing excellent growth due to vigorous new business activity and the continued development of insurance broking in New Zealand generally.

In Fiji, at the end of the past year, Stenhouse Sullivan (Pacific Islands) Ltd. was formed and operates in partnership with established local interests. Whilst predictions for the next financial year are modest, it is felt that this operation in the long term will make a worthy contribution to the group's income while at the same time providing local service to multi-national clients.

The Lloyd's Underwriting Agency company had another successful year and introduced a record number of new names for underwriting membership of Lloyd's. It is especially pleasing to see an increasing number of North American members.

EXECUTIVE APPOINTMENTS

On October 1, 1977, Mr. J. B. Devine, Mr. D. C. French and Mr. H. Houghton joined the Board of A. R. Stenhouse Reed Shaw & Partners Ltd. Simultaneously Mr. Houghton was appointed Managing Director and Chief Executive. Their many years of extensive operational experience will be of great value in continuing to develop our business.


During the year, the Directors were pleased to elect as Chairman of the Board of Reed Shaw Osler Limited The Honourable John B. Aird, O.C., Q.C., who has enjoyed an association of 20 years with the company and one of its predecessors. At this time, the Directors confidently welcome Mr. A.W. John and Mr. H. Houghton who present themselves for election to the Board.

CORPORATE NAME CHANGE

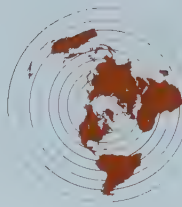
At the Annual and Special General Meeting to be held on February 9, 1978, shareholders will be requested to vote approval of a change in the name of their company to Reed Stenhouse Companies Limited. The 1973 merger with "Stenhouse" has been most beneficial and has served shareholders well, as the results of the past years demonstrate. Consequently, it is appropriate that we acknowledge this historic and important merger in a more meaningful and formal manner. The change of name will lend greater effectiveness to this worldwide partnership.

ACKNOWLEDGEMENTS

Your company's success is maintained by the contributions of our staff and management, who can be proud of the results they have achieved. I gratefully acknowledge their efforts and the support from our Board of Directors and shareholders. The insurance brokerage business becomes more complex and demanding each year. New services are introduced, new technology continually produces change and more regulatory bodies are established. Our company is fortunate that its employees have responded to these challenges in a highly professional manner. Their dedication and commitment is recognized and appreciated.

A handwritten signature in dark ink, appearing to read "R. Stenhouse", is written over a horizontal line.

President and Chief Executive Officer



1. In Hong Kong, one of the world's leading textile industry centres, Stenhouse South China attends to the insurance requirements of a large garment manufacturing client, illustrated in the photograph below.

2. Forests are an abundant natural resource in Canada. The involvement of Reed Shaw Stenhouse in the many aspects of insurance for logging and related industries ranges from coverage for employee benefits to a client's tree harvester illustrated at work in the Nova Scotia woodlands.



The cooperation of clients who provided photographs for use in this annual report is gratefully acknowledged.

3. Reed Shaw Stenhouse have many clients throughout the world who are engaged in marine transportation activities. The photograph below shows a tug and barge owned by clients of our San Francisco office transporting a jack-up rig on a 15,000-mile voyage from Japan to the Gulf of Mexico.

4. Pictured here is a giant tower crane, built on site in South Africa for use in the surface construction at a new gold mine. Stenhouse Reed Shaw provided insurance services for this project, and the company offers

insurance expertise to the mining industry around the world.

5. Energy products hold an important position in the world today. Reed Shaw Stenhouse arranges insurance coverage for this industry worldwide. Photographed below is a client's methyl alcohol plant in Alberta, part of Canada's growing petrochemical industry.





QUESTIONS FINANCIAL ANALYSTS ASK

Management believes that shareholders might gain greater insight into the operations of their company by being aware of their company's answers to questions most frequently asked by financial analysts. These are, of course, only capsule responses to those questions.

Q.1. We recognize that as a company in a service industry, you perceive the goodwill entry on your Balance Sheet as an important and appreciating asset. We wonder, however, why your goodwill account is higher than that of other brokers in the U.K. and the U.S. and what posture you intend to assume with regard to amortization of this item in the future?

A.1. As you imply, we view goodwill as a real and appreciating asset, reflecting values in our business. However, it must be recognized that required methods of accounting for acquisitions, other than poolings, in the jurisdictions you mention are different. For example, the Canadian requirement almost always requires us to record the value of goodwill on the Balance Sheet; in the U.S., acquisitions by share exchange often do not develop any appreciable value for goodwill; and, in the U.K., goodwill may be written off immediately against the purchaser's reserves.

Thus, our Balance Sheet in respect of goodwill is quite different from our counterparts in the U.S. and the U.K. We believe, however, that our approach comes closer to presenting the value of our most important asset which is, after all, the professionalism and integrity of the company as well as the talent of our personnel and the business relationships they have developed over many years. These we regard as our real strengths and we believe that a close examination of our growth would support this contention.

In this country, we are required under Canadian accounting rules to amortize goodwill arising subsequent to March 31, 1974, at a minimum rate of two and one-half percent per annum. It is our view that this charge to earnings is inappropriate and actually misleading as we believe our goodwill is increasing and should not be amortized. It is our belief that this accounting adjustment should be given its appropriate place in judging our results particularly as our American and British competitors can largely avoid this requirement by following account-

ing conventions not available to us. We trust that investors share our view.

Q.2. As a result of your widespread operations in many countries you have a material exposure to foreign currency fluctuations. Is this an area of concern to management?

A.2. Our profits have more than demonstrated their ability to survive periodic, isolated currency fluctuations. Our volume has improved immensely and so has the profit we have derived therefrom. In the broader sense, the fact that we are involved in many countries and deal in various currencies is a strength, not a weakness. The effect of any softness in a specific currency on our earnings is minimal by the very fact of the internationality of our revenue sources. The more realistic appraisal of the Canadian dollar will also be helpful.

Q.3. While your working capital ratio has improved in the past couple of years, it still appears to be low when related to other public insurance brokerage companies. Does this in any way limit the operating effectiveness of the company?

A.3. It is management's view that a low working capital ratio indicates we are utilizing our funds efficiently in that our earnings are either being reinvested in the expansion of our business or returned to shareholders by way of dividends. Also, an examination of our deferred tax account indicates that it is a constantly replenished and growing amount, and thus it could be said that our working capital is effectively almost \$10 million more than a simple comparison of total current assets and liabilities might suggest. Our working capital position has never been an impediment to our development or operations.

Q.4. Most other brokers have no debt recorded on their Balance Sheet while you, in relative terms, have a significant debt component. What are your thoughts with regard to the company's debt/equity ratio and, in this regard, might you consider recapitalization in the near future?

A.4. The company's return on shareholders' equity of 20 per cent after tax compares very favourably with prevailing borrowing rates. We therefore believe that incurring significant debt, in order to expand a business which produces a net profit in excess of the cost of carrying such debt, is in the best interest of shareholders rather than permanently

expanding the equity base. Accordingly, we do not at this time envisage any substantial change in our capital structure or debt/equity ratio.

Q.5. We recognize that Reed Shaw Osler holds an option to sell its office property in London to Stenhouse Holdings Ltd. during the year commencing October 1, 1979. We also appreciate that the terms of the option agreement provide that Reed Shaw Osler should not incur a loss in sterling of either capital or carrying charges. However, we wonder whether management could comment upon the likely disposition of this matter?

A.5. As you say, there was no risk assumed by Reed Shaw Osler in the acquisition of the ownership of this property by virtue of our agreement with the vendor. Meanwhile, possession of this building is leading to consolidation of most of our London operations and, consequently, to a number of operational efficiencies and savings. At this point we can give no indication as to whether management will decide to exercise their option, as that decision would be dependent upon a number of factors including the use we might have for cash and the real estate market at that time.

Q.6. You have indicated that you intend to continue an aggressive expansion policy in the U.S. which will embody a combination of opening offices and acquisitions. Is your program on schedule and are you able to state objectives in terms of the proportion that U.S. revenues may assume related to total revenues in the next year or two?

A.6. As you know, we have already opened offices in seven American cities, two of which have since been combined with latterly acquired businesses. This brings to nineteen the number of cities in which we operate. Our continuing U.S. acquisition program is governed by two major considerations. The first of these is our purchasing capability and the second is the quality of opportunities offered to us. On the first point, we believe that we are in a position to make substantial future acquisitions either through the issuance of shares in particular circumstances or by way of increased debt, in addition to self-generated funds.

With respect to the second point, we are continually examining alternatives, of which many appear attractive. Our broad objective is to double our U.S. volume of business in the

next few years which will be achieved in large measure by the acquisition of operations meeting our standards in terms of overall performance. Understandably, this is a process that cannot be rushed.

Q.7. We see conceivable exposures to loss of business in a few areas. Notably, we can see competition through government entry, particularly in automobile insurance. We are also curious about your Quebec operations. What is your degree of exposure and are there offsetting factors with respect to other markets you can foresee at the present?

A.7. To answer your questions in order, we are not overly concerned about the entry of governments into the insurance field. The business which might be affected makes a relatively small contribution to our overall results. With regard to Quebec, we believe that the essence of our operations there will remain intact. To be effective in insurance broking requires a recognized international name and we believe the same will apply to brokerage within the Province of Quebec. With respect to offsetting factors, we would ask you to consider the expanding reinsurance activities available to us and the growing participation in prospect in the Lloyd's underwriting agency field. Additionally, there is potential in the area of employee benefits in many parts of the world, particularly in the U.S., where this specialized activity is regarded as the most fertile area for expansion for major brokers such as ourselves.

Q.8. You have achieved a steady growth in earnings and revenues. Do you anticipate this to continue?

A.8. We believe so. The combined potential of internal growth and the carefully considered acquisition of existing operations appears sufficiently promising to support a continuing upward trend in earnings.

Q.9. Most U.S. broker dividend payouts range between 40 and 60 per cent of net profits. Prior to dividend controls, Reed Shaw Osler's payout was approximately 40 per cent. Do you foresee a return to at least this level when controls are relaxed?

A.9. Because of the constraints of governmental controls, dividend payout is approximately 30 per cent of our net profits currently. We believe it would be in the interest of shareholders to move forward to the 40 per cent range.



CORPORATE PROFILE

The current corporate structure originated from the 1968 merger of three established Canadian brokerage organizations with histories dating back to the 19th Century – Reed Shaw & McNaught; Osler, Hammond & Nanton Insurance Limited; and Cronyn, Pocock and Robinson Limited.

Reed Shaw Osler Limited made a public offering of its shares in 1968, and has since expanded rapidly through internal growth and planned acquisitions to achieve its present prominent position.

In 1973, Reed Shaw Osler Limited merged with A. R. Stenhouse & Partners Limited (since renamed A. R. Stenhouse Reed Shaw & Partners Limited), a British insurance broker, founded in Scotland in 1904. A. R. Stenhouse Reed Shaw & Partners expanded significantly through acquisition and growth with activities throughout the British Isles, the European Economic Community, Australasia, South East Asia, and Africa.

Expansion into the United States has been achieved most significantly in recent years. A major presence in that country was first established early in 1974 with the acquisition of St. Louis-based Insurance Consultants, Inc., since renamed Reed Shaw Stenhouse Inc. That company has extended its operations through further mergers and a systematic opening of offices across the country.

Of the company's subsidiaries, Reed Shaw Stenhouse & Partners Limited, based in Canada, is responsible for business in the Western Hemisphere, with Reed Shaw Stenhouse Limited the major Canadian operating subsidiary and Reed Shaw Stenhouse Inc. in the United States. Elsewhere around the globe, operations are directed by A. R. Stenhouse Reed Shaw & Partners Limited of Glasgow, Scotland.

During 1977, Mr. S. L. Kling was appointed Chairman of Reed Shaw Stenhouse Inc. Photographed following the announcement in St. Louis, Missouri, are (seated right to left): J. W. Whittall, President and Chief Executive Officer of Reed Shaw Osler Limited; S. L. Kling; A. F. Salvatore, President, Reed Shaw Stenhouse Inc.; and D. L. Thomas, a Director of Reed Shaw Stenhouse Inc. (standing).



NORTH AMERICAN OPERATIONS

DIRECTORY OF OFFICES

CANADA

Calgary

Reed Shaw Stenhouse & Partners Limited
Reed Shaw Stenhouse Limited
Charles A. Kench and Associates Limited
2700 One Palliser Square
Calgary, Alberta T2G 0P9

Edmonton

Reed Shaw Stenhouse Limited
Charles A. Kench and Associates Limited
2100 Royal Trust Tower
Edmonton Centre
Edmonton, Alberta T5J 2Z2
Harvey Agencies & Co. Ltd.
5404-97 Street
Edmonton, Alberta T6E 5C1

Halifax

Reed Shaw Stenhouse Limited
Suite 700, Barrington Tower, Scotia Square
Halifax, Nova Scotia B3J 2A8

Hamilton

Reed Shaw Stenhouse Limited
Suite 700, One James Street S.
Hamilton, Ontario L8P 4R5

London

Reed Shaw Stenhouse Limited
Charles A. Kench and Associates Limited
Suite 600, 6th Floor
Northern Life Tower
380 Wellington Street
London, Ontario N6A 5B5

Montreal

Reed Shaw Stenhouse Limited
Charles A. Kench and Associates Limited
759 Victoria Square
Montreal, Quebec H2Y 2K2
J. Meloche Inc.
Monnex Insurance Agencies Ltd.
Société de Services Financiers Sonef Limitée
Suite 1225, 50 Place Cremazie
Montreal, Quebec H2P 1B6

Ottawa

Reed Shaw Stenhouse Limited
Inn of the Provinces
Suite 407, 350 Sparks Street
Ottawa, Ontario K1R 7S8

Prince George

Reed Shaw Stenhouse Limited
417-280 Victoria Street
Oxford Building
Prince George, British Columbia V2L 2J4

Quebec City

Roy, Arsenault & Associés Inc.
105 Côté de la Montagne
Quebec City, Quebec G1K 4E4

Regina

Ducketts Limited
Charles A. Kench and Associates Limited
2150 Scarth Street
Regina, Saskatchewan S4P 2H7

Saskatoon

Ducketts Limited
Charles A. Kench and Associates Limited
1150 Avord Tower
Saskatoon, Saskatchewan S7K 3H1

Toronto

Reed Shaw Osler Limited
Reed Shaw Stenhouse & Partners Limited
Reed Shaw Stenhouse Limited
P.O. Box 250, Royal Trust Tower
Toronto Dominion Centre
Toronto, Ontario M5K 1J6
Charles A. Kench and Associates Limited
Employee Facts Limited
P.O. Box 279, Royal Trust Tower
Toronto Dominion Centre
Toronto, Ontario M5K 1J5
Sten-Re Ltd.
Reed Risk Management International Ltd.
P.O. Box 317, Royal Trust Tower
Toronto Dominion Centre
Toronto, Ontario M5K 1K2
Monnex Insurance Agencies Ltd.
Suite 1505, 20 Eglinton Avenue West
Toronto, Ontario M4R 1K8

Vancouver

Reed Shaw Stenhouse Limited
Charles A. Kench and Associates Limited
P.O. Box 10028, Pacific Centre South
Toronto Dominion Bank Tower
Vancouver, British Columbia V7Y 1B4

Waterloo

Reed Shaw Stenhouse Limited
8 Erb Street West
Waterloo, Ontario N2J 4A4

Winnipeg

Reed Shaw Stenhouse Limited
Charles A. Kench and Associates Limited
1800 One Lombard Place
Winnipeg, Manitoba R3B 2A3

Yellowknife

Reed Shaw Stenhouse Limited
P.O. Box 1000
Yellowknife, Northwest Territories X0E 1H0

BERMUDA

Hamilton

Insurance Managers Limited
Dorchester House
Church Street
Hamilton 5, Bermuda

REED STENHOUSE COMPANIES SENIOR OPERATING EXECUTIVES



S. F. Leow
Managing Director
Stenhouse Leow Pte. Ltd.
Singapore, South East Asia



D. C. French
Managing Director
Stenhouse Reed Shaw Ltd.
Sydney, Australia



M. D. Hogan
Managing Director
Stenhouse Reed Shaw Ltd.
Auckland, New Zealand



H. J. Harvey
Executive Vice President
Reed Shaw Stenhouse & Partners Limited
Calgary, Canada



C. G. E. Gyles
President
Reed Shaw Stenhouse Limited
Toronto, Canada



A. F. Salvatore
President
Reed Shaw Stenhouse Inc.
New York, U.S.A.



P. G. Leitch
President
Insurance Managers Limited
Bermuda



J. M. Moon
Executive Vice President
Reed Shaw Osler Limited
Calgary, Canada



J. Morgan
President
Stenhouse Reed Shaw N.V./S.A.
Brussels, Belgium



J. C. Regamey
President
Stenhouse Reed Shaw International S.A.
Geneva, Switzerland
President
Société Générale de Courtage d'Assurances S.A.
Paris, France



P. Meloche
Managing Director
Société Générale de Courtage d'Assurances S.A.
Paris, France



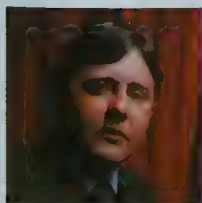
J. Platford
Managing Director
Sten-Re Ltd.
London, England



H. Houghton
Managing Director and Chief Executive
A. R. Stenhouse Reed Shaw & Partners Ltd.
London, England



J. B. Devine
Executive Chairman
Stenhouse Reed Shaw Ltd.
Glasgow, Scotland



R. G. Harrison
Managing Director
Stenhouse Reed Shaw Africa (Pty) Ltd.
Johannesburg, South Africa



NORTH AMERICAN OPERATIONS

DIRECTORY OF OFFICES

UNITED STATES OF AMERICA

Boca Raton

Reed Shaw Stenhouse, Inc. of Florida
855 South Federal Highway
Weir Plaza Building
Boca Raton, Florida 33432

Boston

Reed Shaw Stenhouse of Massachusetts, Inc.
One State Street
Boston, Massachusetts 02109

Chicago

Reed Shaw Stenhouse, Inc. of Illinois
RSS Benefits, Inc.
230 West Monroe Street
Chicago, Illinois 60606

Denver

Reed Shaw Stenhouse, Inc. of Colorado
Suite 945, 555 Seventeenth Street
Anaconda Tower
Denver, Colorado 80202

Fort Lauderdale

Reed Shaw Stenhouse, Inc. of Florida
4875 North Federal Highway
Fort Lauderdale, Florida 33308

Honolulu

Reed Shaw Stenhouse of Hawaii, Inc.
841 Bishop Street
Honolulu, Hawaii 96811

Houston

Reed Shaw Stenhouse, Inc. of Texas
2690 South Tower, Pennzoil Place
Houston, Texas 77002

Kansas City

Reed Shaw Stenhouse, Inc. of Missouri
222 Board of Trade Building
127 West 10th Street
Kansas City, Missouri 64105
2 Gateway Center
Kansas City, Kansas 66101

Los Angeles

Reed Shaw Stenhouse, Inc. of California
Suite 310, 3450 Wilshire Blvd.
Los Angeles, California 90010

New York

Daynard & Van Thunen Co. Inc.
125 Maiden Lane
New York, New York 10038
Great Eastern Associates Inc.
Suite 1437, 1 World Trade Centre
New York, New York 10048
Reed Shaw Stenhouse Inc.
1270 Avenue of the Americas
New York, New York 10020
Reed Shaw Stenhouse, Inc. of New York
Reed Risk Management Inc.
100 William Street
New York, New York 10038

Oakland

Reed Shaw Stenhouse, Inc. of California
300 Lakeside Drive
Oakland, California 94612

Orlando

Reed Shaw Stenhouse, Inc. of Florida
Suite 208, 5151 Adanson Street
Orlando, Florida 32804

Pittsburgh

Reed Shaw Stenhouse, Inc. of Pennsylvania
300 Sixth Avenue at Wood
Pittsburgh, Pennsylvania 15222

Portland

Reed Shaw Stenhouse, Inc. of Oregon
Suite 190, Harrison Square
1800 S.W. First Avenue
Portland, Oregon 97201

Clayton

Reed Shaw Stenhouse Inc.
Suite 305, 7751 Carondelet
Clayton, Missouri 63105

St. Louis

Reed Shaw Stenhouse, Inc. of Missouri
1010 Collingwood Drive
St. Louis, Missouri 63132

San Francisco

Reed Shaw Stenhouse, Inc. of California
Reed Risk Management Inc.
Suite 2900, One Embarcadero Center
San Francisco, California 94111

Seattle

Reed Shaw Stenhouse, Inc. of Washington
Suite 825, 4th and Battery Bldg.
Seattle, Washington 98119

Washington

Reed Shaw Stenhouse, Inc. of Washington, D.C.
1140 Connecticut Avenue, N.W.
Washington, D.C. 20036
Reed Shaw Stenhouse International Inc.
Suite 530, 444 North Capitol Street, N.W.
Washington, D.C. 20001

MEXICO

Mexico City

Sten-Re Latinoamerica
Insurgentes sur 682.204
Mexico City 12 DF, Mexico

SYNOPSIS OF INTERNATIONAL OPERATIONS

The Reed Stenhouse companies are an international insurance and reinsurance brokerage and risk management organization. The company's clients include major corporations, governments and institutions. It provides services in such fields as marine, aviation, forest products, mining, petroleum and natural gas, utilities, manufacturing, retailing, finance, transportation and recreation.

The largest volume of activity is in the placement of property and casualty insurance. Related services include advice on risk management and loss prevention, average adjusting services, claims settlement, reinsurance brokerage, computerized financial risk analysis, self-insurance consulting, and employee benefits. With its international scope, the organization is able to place almost any type of insurance quickly and economically on a worldwide basis.

The company has become particularly recognized for its technical expertise, marketing ability, reinsurance facilities, risk management, loss prevention engineering and employee benefits services.

The company's technical expertise developed over years of exposure to most insurance situations and has often provided the lead in developing new forms of insurance coverage.

Its marketing ability has been gained through an intimate knowledge of the world's insurance markets, an essential component of successful and innovative service to clients. Personnel in the group of companies possess a wealth of experience regarding the most effective route through today's complex array of insurance companies in order to achieve optimum coverage for their clients at the most reasonable prices. In particular, the company's presence at Lloyd's and access to worldwide markets through its in-house facilities strengthens its ability to approach insurers in widespread major centres.

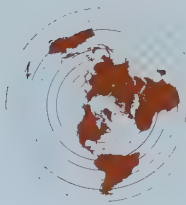
A reinsurance brokerage subsidiary, provides support to all local operations from centres in Britain, North America, Continental Europe, Australasia and Singapore. The reinsurance market is a source for imaginative and competitive insurance programs and fulfils the objective of both

mobilizing world markets and maximizing capacity. Reinsurance also plays a prominent and positive role in the company's increasing involvement in the developing captive insurance company concept.

Risk management has become an increasingly important function of modern business as the necessity and complexity of insurance have increased. The company's growing participation in this area includes a completion of detailed feasibility studies to analyze financial statistics relating to risk exposure and loss experience, together with other relevant data which allow for the determination of the most economic retention level to be selected by a client.

The company's loss prevention engineers provide highly technical, specialized advice on methods of risk control. With teams of engineers strategically located around the world, the emphasis, as in all aspects of the company's operations, is to provide the required skills at the local level wherever and whenever circumstances dictate.

The company provides a broad range of services in the complex and growing field of employee benefits, including actuarial and benefit plan consulting and plan design, marketing, implementation, and employee communications. In addition, there is growing involvement in the administration of group insurance and pension plans.



1. At Antwerp, fourth largest seaport in the world, facilities for container movement are typical of some installations which are operated by Belgian clients of Stenhouse Reed Shaw.
2. The company creates and implements extensive insurance programs for many clients in France with varied operations, such as plastics processing illustrated in the photograph of an insured's machinery.
3. New Zealand is expanding rapidly into international markets with its agricultural and livestock products,



which are a vital part of its economy. Stenhouse Reed Shaw provides a variety of insurance services for a client, one of the country's largest stock and station agents.

4. Insurance arranged through Reed Shaw Stenhouse covered fire and extended perils during construction of the full scale mock-up of a Canadian client's aircraft, which was subsequently transported and displayed throughout Europe and North America.

5. The destruction, by fire, of a client's multi-million dollar planer mill was photographed by a Reed Shaw

Stenhouse employee. Insurance coverage for property damage and business interruption loss had been arranged through the Montreal office.

6. Personnel from the Aberdeen office of Stenhouse Reed Shaw in Scotland conduct business over a wide geographical area including the Shetlands, the Hebrides and the Orkney Islands. With the discovery of oil in the North Sea and the increased business developed in this region, the company's personnel commute in small aircraft, even to the remotest areas, to serve client needs.





DIRECTORS

(as at December 31, 1977)

The Honourable John B. Aird, O.C.,
Q.C., LL.D.
Chairman of the Board

Arthur G. Bacon

Eric G. Bale, C.A.
Secretary-Treasurer

Gavin Boyd, C.B.E., M.A., LL.B.

John S. Davidson

Angus Grossart, M.A., LL.B., C.A.

Jack M. Moon
Executive Vice President

The Honourable John P. Robarts, P.C., C.C.,
Q.C., LL.D.
Chairman of the Board, Reed Shaw
Stenhouse Limited

John G. Stenhouse, T.D.

Raymond C. Strange, A.C.I.I.
Chairman, A. R. Stenhouse Reed Shaw &
Partners Limited

James W. Whittall
President and Chief Executive Officer

William M. Wilson, C.A.
Vice President (Finance) and
Chief Financial Officer

EXECUTIVE COMMITTEE

James W. Whittall/Chairman

Eric G. Bale

Angus Grossart

Jack M. Moon

Raymond C. Strange

William M. Wilson

AUDIT COMMITTEE

The Honourable John P. Robarts/Chairman

The Honourable John B. Aird

John S. Davidson

Angus Grossart

TRANSFER AGENTS AND REGISTRARS

The Canada Trust Company in Toronto

Canada Permanent Trust Company
in other major Canadian cities

STOCK LISTINGS

The Company's Class A common shares trade
under the ticker symbol RDO "A" on the
following Canadian Stock Exchanges:

The Toronto Stock Exchange
The Montreal Stock Exchange
The Vancouver Stock Exchange

CONSOLIDATED FINANCIAL STATEMENTS

AUDITORS' REPORT

To the Shareholders of Reed Shaw Osler Limited:

We have examined the consolidated balance sheet of Reed Shaw Osler Limited as at September 30, 1977 and the consolidated statements of earnings, retained earnings, capital in excess of par value and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
December 2, 1977

Clarkson, Gordon & Co.
Chartered Accountants

McLintock Main Lafrentz & Co.
Chartered Accountants

CONSOLIDATED BALANCE SHEET

September 30, 1977

(with comparative figures as at September 30, 1976)

ASSETS	1977	1976
	(in thousands)	
CURRENT:		
Cash and bank deposit receipts	\$ 64,680	\$ 60,523
Marketable securities	285	343
Short-term deposits and loans	7,659	8,634
Accounts receivable	217,169	180,821
Prepaid expenses and other current assets	5,594	4,057
	<u>295,387</u>	<u>254,378</u>
INVESTMENTS:		
Affiliated companies	1,507	1,356
Securities on deposit and other quoted investments	601	526
Mortgages, loans and other investments (note 5)	3,076	2,174
	<u>5,184</u>	<u>4,056</u>
FIXED ASSETS:		
Land, buildings and building improvements (note 3)	23,044	21,551
Office furniture, equipment and vehicles	11,641	8,789
Leasehold improvements	3,497	2,796
Total, at cost	<u>38,182</u>	<u>33,136</u>
Less accumulated depreciation and amortization	7,440	5,886
	<u>30,742</u>	<u>27,250</u>
INTANGIBLE ASSETS:		
Goodwill	54,976	51,928
Non-compete covenants	824	720
	<u>55,800</u>	<u>52,648</u>
	<u>\$387,113</u>	<u>\$338,332</u>

On behalf of the Board:

A. J. Haley

Director

Eric G. Bale

Director

(See accompanying notes to consolidated financial statements)

LIABILITIES

	1977	1976
	(in thousands)	
CURRENT:		
Bank overdrafts	\$ 5,513	\$ 2,452
Accounts payable	247,737	218,524
Sundry payables and accrued charges	18,296	13,240
Income taxes payable	7,778	5,569
Term bank loans and notes payable, current portion	2,120	1,630
Deferred income taxes, current portion	9,732	8,442
Deferred commissions, current portion	760	882
	<u>291,936</u>	<u>250,739</u>
LONG-TERM:		
Term bank loans and notes payable (note 4)	17,415	18,820
Income taxes due beyond one year	2,941	2,258
Deferred income taxes	391	170
Deferred commissions	142	197
Other liabilities	256	
	<u>21,145</u>	<u>21,445</u>
Deferred credit, foreign currency translation	1,481	3,943
Minority interest	1,393	1,226
SHAREHOLDERS' EQUITY (note 5)		
Share capital	14,925	14,862
Preferred shares of A. R. Stenhouse Reed Shaw & Partners Limited	35	35
Capital in excess of par value	13,760	13,334
Retained earnings	42,438	32,748
	<u>71,158</u>	<u>60,979</u>
	<u>\$387,113</u>	<u>\$338,332</u>



CONSOLIDATED STATEMENT OF EARNINGS

For the year ended September 30, 1977
(with comparative figures for 1976)

	1977	1976
	(in thousands)	
Commissions and fees earned, net	\$127,599	\$105,313
Operating expenses:		
General	102,500	83,683
Depreciation and amortization of fixed assets	1,962	1,641
	104,462	85,324
	23,137	19,989
Interest, dividend and rental income, net:		
Interest, dividend and rental income (note 3)	7,695	6,322
Interest on long-term debt	2,066	2,369
	5,629	3,953
Earnings before income taxes and other items	28,766	23,942
Income taxes:		
Current	12,512	10,032
Deferred	1,458	1,662
	13,970	11,694
Earnings before other items	14,796	12,248
Other items:		
Equity in loss (earnings) of affiliated companies	90	(88)
Minority interest	110	127
	200	39
Earnings before reduction of intangible assets	14,596	12,209
Reduction of intangible assets net of income taxes (1977 - \$84,000; 1976 - \$50,000)	396	369
Net earnings for the year (note 6)	\$ 14,200	\$ 11,840

(See accompanying notes to consolidated financial statements)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND CAPITAL IN EXCESS OF PAR VALUE

For the year ended September 30, 1977
(with comparative figures for 1976)

	1977	1976
	(in thousands)	
RETAINED EARNINGS		
Balance, beginning of year	\$ 32,748	\$ 25,080
Add net earnings for the year	14,200	11,840
	46,948	36,920
Deduct dividends paid (note 6)	4,510	4,172
Balance, end of year	\$ 42,438	\$ 32,748
CAPITAL IN EXCESS OF PAR VALUE		
Balance, beginning of year	\$ 13,334	\$ 13,334
Add capital in excess of par value on shares issued during the year (note 5)	426	
Balance, end of year	\$ 13,760	\$ 13,334

(See accompanying notes to consolidated financial statements)



CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended September 30, 1977
(with comparative figures for 1976)

	1977	1976
	(in thousands)	
Source of funds:		
Operations –		
Net earnings for the year	\$ 14,200	\$ 11,840
Add items not involving working capital:		
Depreciation and amortization of fixed assets	1,962	1,641
Other	1,012	247
Working capital provided from operations	17,174	13,728
Additional term bank loans and notes payable		1,642
Increase (decrease) in term bank loans and notes payable due to foreign currency changes	2,056	(2,985)
Increase in income taxes due beyond one year	683	803
Increase in minority interest in businesses acquired previously	57	822
Issue of Class “A” shares	489	
	20,459	14,010
Application of funds:		
Non-current assets and liabilities relating to insurance businesses acquired		
Goodwill	3,272	2,559
Non-compete covenant	272	
Fixed and other assets	219	950
	3,763	3,509
Less notes payable and other liabilities, long-term portion	504	
Net non-current assets acquired	3,259	3,509
Additions to fixed and other assets	6,453	1,442
Price escalation adjustments for goodwill in connection with businesses acquired previously	88	43
Repayment of term bank loans and notes payable	3,875	2,174
Decrease (increase) in deferred credit on foreign currency translation	2,462	(2,863)
Dividends paid	4,510	4,172
	20,647	8,477
Net increase (decrease) in working capital for year	(188)	5,533
Working capital (deficiency), beginning of year	3,639	(1,894)
Working capital, end of year	\$ 3,451	\$ 3,639
Represented by:		
Current assets	\$295,387	\$254,378
Less current liabilities	291,936	250,739
Working capital, end of year	\$ 3,451	\$ 3,639

(See accompanying notes to consolidated financial statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1977

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation:

The accompanying consolidated financial statements consolidate the accounts of Reed Shaw Osler Limited and all its subsidiary companies. The merger of Reed Shaw Osler Limited and A. R. Stenhouse Reed Shaw & Partners Limited, effective October 1, 1972, is accounted for using the "pooling of interests" accounting method. Acquisitions of businesses are accounted for using the purchase method of accounting.

(b) Revenue recognition:

Commission revenue is generally recognized on the effective date of the policies. Where the policy and premium term exceed one year, a portion of the revenue is deferred to subsequent applicable years. Fees for actuarial and other consulting services are recognized when the services are rendered. (General expenses include the costs of servicing customers, which costs are expensed as incurred.)

(c) Foreign currency translation:

Non-current assets and liabilities of the company which are stated in a foreign currency and financial statements of subsidiary companies outside of Canada are translated into Canadian dollars as follows:

(i) At rates of exchange prevailing at the balance sheet date

- assets, other than Dominion Buildings (note 3) and related accumulated depreciation, goodwill and non-compete covenants
- liabilities

(ii) At rates of exchange prevailing at dates of acquisition

- Dominion Buildings (note 3) and related accumulated depreciation
- goodwill and non-compete covenants and related charges against earnings
- preferred shares of A. R. Stenhouse Reed Shaw & Partners Limited

(iii) At average rates of exchange prevailing during the year

- revenues
- expenses (except for those in (ii) above)
- dividends paid by subsidiary (note 6 (b))

Because of circumstances prevailing in world currency markets the net accumulated unrealized exchange translation credits are deferred. The unrealized exchange translation debit of \$2,462,000 arising on consolidation in 1977 is included in such deferral.

(d) Investments and marketable securities:

(i) Affiliated companies:

Investments in effectively controlled affiliated companies are accounted for on the equity method. Under this method the company's share of the net earnings or loss of such companies for the year is reflected in the consolidated statement of earnings and the investments are carried at cost of shares and advances plus the company's

share of undistributed earnings since acquisition.

(ii) Other:

- marketable securities, at cost (this value approximates quoted market value)
- securities on deposit and other quoted investments, at cost less amounts written off (this value approximates quoted market value)
- mortgages, loans and other investments, at cost

(e) Fixed assets:

Fixed assets are recorded at cost. Leasehold improvements are generally amortized over the terms of the related leases. Depreciation of other fixed assets, except land, is provided over their estimated useful lives at $2\frac{1}{2}\%$ for Dominion Buildings and at rates varying from 10% to 30% for the remainder.

(f) Other assets:

(i) Goodwill:

Goodwill is valued at cost less amounts written off. To comply with generally accepted accounting principles, goodwill on business acquisitions subsequent to March 31, 1974 is amortized on a straight line basis over 40 years (1977 – \$146,000; 1976 – \$36,000) and goodwill arising before and after that date is reduced when it is considered that there may be a permanent decline in its value (1977 – \$166,000; 1976 – \$283,000).

(ii) Non-compete covenants:

The non-compete covenants are recorded at cost, less amortization. Amortization (1977 – \$168,000; 1976 – \$100,000) is provided on a straight line basis over the terms of the covenants, currently not exceeding 10 years.

(g) Deferred income taxes:

For income tax purposes the Canadian companies are permitted to defer commission revenue in excess of the commission deferred in the accounts: the amount of income tax thus postponed is provided for in the liabilities as "deferred income taxes".

Since the company considers the earnings of foreign subsidiaries and affiliated companies to be permanently invested outside of Canada, it does not make provision for income taxes which would become payable if such earnings were remitted to Canada.

(h) Pension plan:

The company and certain of its subsidiaries provide pension plans for employees in accordance with normal local employment conditions. All plans currently are adequately funded to the extent that existing assets are sufficient to provide for all pension benefits based on service and earnings to date. Ultimate pension benefits under those plans are, however, determined on actuarially calculated pre-retirement earnings.



Based on those calculations, certain subsidiaries have contingent obligations for unfunded past service pension benefits estimated at \$5,183,000. It is intended that these contingent past service pension obligations will be funded and charged against future earnings by payments of various amounts not exceeding \$419,000 annually over a period of thirty years.

2. GEOGRAPHIC DISTRIBUTION

The geographic distributions of premiums, on which the company earns its commissions, and earnings before income taxes and other items are as follows (in thousands):

	Premiums		Earnings	
	1977	1976	1977	1976
Canada and United States	\$ 529,637	\$396,077	\$12,830	\$10,226
United Kingdom	296,410	273,099	8,741	7,015
Australia and New Zealand	160,657	162,908	5,583	5,443
Other	79,581	47,435	1,612	1,258
	<u>\$1,066,285</u>	<u>\$879,519</u>	<u>\$28,766</u>	<u>\$23,942</u>

3. LAND, BUILDINGS, AND BUILDING IMPROVEMENTS

In 1974 A. R. Stenhouse Reed Shaw & Partners Limited, a United Kingdom subsidiary of the company, acquired from Stenhouse Holdings Limited, the company's principal shareholder, the issued shares of Dominion Buildings Limited, whose only asset is an office building known as Dominion Buildings and the land on which it is situated in London, England.

The building is leased to a subsidiary of Stenhouse Holdings Limited at an annual rental of £650,000 such lease being guaranteed by Stenhouse Holdings Limited. The lease expires in thirty-two years and is subject to five-year rental reviews during its term. A major portion of the building is sublet to certain operating subsidiaries of A. R. Stenhouse Reed Shaw & Partners Limited.

Under the terms of the purchase arrangements:

- The company through its subsidiary A. R. Stenhouse Reed Shaw & Partners Limited has an option under which it may between October 1, 1979 and September 30, 1980 require Stenhouse Holdings Limited to repurchase the shares of Dominion Buildings Limited at a value based on the original sterling cost to A. R. Stenhouse Reed Shaw & Partners Limited of acquiring such shares plus accumulated defined costs.
- If either the shares in Dominion Buildings Limited or the property known as Dominion Buildings is sold to an outside party, Stenhouse Holdings Limited will participate indirectly in any gain on that sale through its shareholding in Reed Shaw Osler Limited and is entitled for a period of 38 years, if at the time of that sale its shareholding in Reed Shaw Osler Limited is less than 50%, to receive a cash payment to ensure that its combined direct and indirect participation in that gain is 50%.

4. TERM BANK LOANS AND NOTES PAYABLE

- Details (with current interest rates at September 30, 1977 indicated) are as follows:

Term bank loans — (in thousands)

Due by instalments to December, 1979, payable in sterling (see (c) below) — interest at London Interbank Market rate on six month sterling time deposits plus $2\frac{1}{2}\%$ (currently $11\frac{3}{4}\%$) \$ 8,272

Due by instalments to January, 1987, payable in U.S. dollars (see (d) below) — interest at London Interbank Market rate on Eurodollars, for various periods, plus $1\frac{1}{2}\%$ (currently at various rates of approximately $7\frac{3}{4}\%$) 7,224

Due by instalments to March, 1984, payable in U.S. dollars (see (d) below) — interest at U.S. bank rate plus $1\frac{1}{2}\%$ (currently $7\frac{3}{4}\%$) 1,070

Due by instalments to November, 1980, payable in U.S. dollars — interest at London Interbank Market rate on Eurodollars, for various periods, plus $1\frac{1}{2}\%$ (currently at various rates of approximately $7\frac{1}{8}\%$) 961

Due October, 1978, payable in Canadian dollars — interest at Canadian bank rate plus $\frac{1}{2}\%$ (currently $8\frac{3}{4}\%$) 600

Less portion due within one year 18,127
1,756
16,371

Notes payable —

Notes due by instalments to April, 1985, interest at various rates not exceeding 8% Payable in U.S. dollars 1,323
Other 85

Less portion due within one year 1,408
364
1,044
\$17,415

- Principal due within the next five years is as follows (in thousands): 1978 — \$2,120; 1979 — \$3,692; 1980 — \$6,592; 1981 — \$1,561; 1982 — \$1,009.

- Secured sterling bank loan in connection with the acquisition of Dominion Buildings Limited (note 3):

Under the terms of the loan agreement, this loan, which is secured by the shares of Dominion Buildings Limited, would become immediately repayable in full in the event Stenhouse Holdings Limited ceases to be the holding company of A. R. Stenhouse Reed Shaw & Partners Limited within the meaning of the United Kingdom Companies Acts.

(d) Secured term bank loans:

Although certain term bank loans are secured by demand notes, the repayment terms are included in (a) and (b) above.

5. SHAREHOLDERS' EQUITY

(a) Authorized share capital: (no changes during 1977)

Class "A" shares of \$1 par value each	20,000,000
Convertible Class "B" shares of \$1 par value each	8,095,159
Convertible Class "C" shares of \$2 par value each	1,328,547
(including 63,600 shares that were issued and subsequently converted into 127,200 Class "B" shares)	

(b) Issued share capital:

	Number	1977 Amount (in thousands)
Class "A"	6,830,212	\$ 6,830
Class "B"	5,565,265	5,565
Class "C"	1,264,947	2,530
		<u>\$14,925</u>
	Number	1976 Amount (in thousands)
Class "A"	6,766,612	\$ 6,767
Class "B"	5,438,065	5,438
Class "C"	1,328,547	2,657
		<u>\$14,862</u>

(c) Changes during the year:

(i) Class "A" shares issued:

	Number	Par value	Capital in excess of par value	Total consideration
(in thousands)				
For cash -				
Senior Executive Stock Purchase Plan				
(note 5(f)) 60,000	\$60	\$407	\$467	
Incentive Stock Option Plan				
(note 5(g))-employees 3,600	3	19	22	
	<u>63,600</u>	<u>\$63</u>	<u>\$426</u>	<u>\$489</u>

(ii) Class "B" and Class "C" shares issued:
127,200 Class "B" shares were issued on the conversion of 63,600 Class "C" shares.

(d) Rights:

Each Class "A", Class "B" and Class "C" share is entitled to one vote. Each Class "B" share may be converted at any time into one

Class "A" share. Each Class "C" share may be converted into two Class "B" shares upon the issuance from treasury of one Class "A" share or if the company should dispose of all or a substantial part of its assets or undertaking or if a takeover bid is made to the holders of the Class "A" shares. Class "A" and Class "B" shares are entitled to the same per share dividends and the Class "C" shares are entitled to twice such per share dividend. However, dividends paid on the special preferred shares of A. R. Stenhouse Reed Shaw & Partners Limited (see (e) below) reduce the dividends paid on the Class "B" and Class "C" shares.

(e) Preferred shares of A. R. Stenhouse Reed Shaw & Partners Limited:

Reflected in the consolidated financial statements as part of shareholders' equity are 15,000 special preferred shares of A. R. Stenhouse Reed Shaw & Partners Limited (note 1 (a)), held by the former shareholders of that company, with a stated capital value of £15,000 (\$35,250), which shares are non-voting and non-participating in winding up or liquidation beyond their paid-up value.

Earnings generated by the A. R. Stenhouse Reed Shaw & Partners Limited group will be available to satisfy the dividend entitlements of United Kingdom shareholders (the Class "B" and Class "C" shareholders), the intention being to have the Class "B" and Class "C" shareholders receive all or most of the dividends to which they are entitled by way of direct dividends on the special shares.

(f) Senior Executive Stock Purchase Plan:

During the year the directors authorized the establishment of a Senior Executive Stock Purchase Plan. Under the terms of the plan eligible participants are entitled to purchase Class "A" common shares from treasury at market prices existing at the date of issue using funds loaned to them by the company for this purpose. Shares purchased under this plan are held by a trustee until the related loans are repaid in full.

Loans amounting to \$466,800, included in "mortgages, loans and other investments" at September 30, 1977, were made to senior officers during the year for the purchase of 60,000 Class "A" common shares. A further 40,000 Class "A" common shares remain reserved for possible issue under this plan.

(g) Incentive Stock Option Plan:

At September 30, 1977 Class "A" share options were outstanding to officers, directors and employees covering a total of 205,400 Class "A" shares at a price of \$6.20 per share exercisable in various periods to April 3, 1980. Of this total, options on 71,500 shares were to officers and directors. In October 1977, employees exercised options on 7,000 shares.



On December 8, 1977 the directors authorized the issue of additional options to purchase 175,000 Class "A" shares to certain employees at a price of \$8.33 exercisable in various periods to December 8, 1982. This authorization has reduced to 92,700 the number of Class "A" shares which remain reserved for possible issue under this plan at prices to be fixed by the directors.

6. NET EARNINGS PER SHARE AND DIVIDENDS

(a) Net earnings per share:

	1977	1976
	(cents)	
Class "A"	95.4	79.7
Class "B"	95.4	79.7
Class "C"	190.8	159.4

The earnings per share for the year have been calculated using the weighted monthly average number of shares outstanding during the year (1977 - 14,887,446; 1976 - 14,861,771) which is the sum of the weighted monthly average number of Class "A" and Class "B" shares and twice the weighted monthly average number of Class "C" shares outstanding during the year. The calculations are based on the net earnings as shown by the consolidated statement of earnings. No deduction is made for dividends paid on the special preferred shares of A. R. Stenhouse Reed Shaw & Partners Limited since, as explained in note 5 (d), such dividends apply to reduce the dividend entitlements of the Class "B" and Class "C" shares.

(b) Dividends:

Dividends paid during the year can be summarized as follows:

	1977	1976
	(in thousands)	
Class "A" shareholders:		
Dividends on Class "A" shares paid by Reed Shaw Osler Limited at 30.24¢ (28¢ in 1976) per share	\$2,055	\$1,895
Class "B" and "C" shareholders:		
Dividends on special preferred shares of A. R. Stenhouse Reed Shaw & Partners Limited equivalent to 30.24¢ (28¢ in 1976) per Class "B" share and 60.48¢ (56¢ in 1976) per Class "C" share	<u>2,455</u>	<u>2,277</u>
	<u>\$4,510</u>	<u>\$4,172</u>

7. COMMITMENTS

(a) Lease:

Commitments under various leases for office premises call for minimum annual rentals within the next five years as follows (in thousands): 1978 - \$5,437; 1979 - \$5,043; 1980 - \$4,828; 1981 - \$4,451; 1982 - \$3,754.

(b) Other:

Certain subsidiaries of the company have entered into commitments amounting to £556,000 (\$1.1 million) for the purchase of fixed assets and, under the terms of an acquisition agreement, a subsidiary will be required to make a price escalation adjustment of approximately \$1.0 million for goodwill in a subsidiary previously acquired.

8. DIRECTORS' AND OFFICERS' REMUNERATION

The aggregate remuneration of the thirteen directors and eight officers, seven of whom are also directors, of the company as defined in Section 122.2 of the Canada Corporations Act is as follows:

	Paid by	
	A Canadian subsidiary	A United Kingdom subsidiary
	(in thousands)	
Directors, as directors	nil	nil
Directors, as officers or employees of subsidiary companies	\$580	\$132
Officers, as officers	\$ 52	nil

9. ANTI-INFLATION PROGRAM

Currently, the Canadian operations of the company are subject to mandatory compliance with legislation under the Government of Canada's anti-inflation program. Controls on profits and employee compensation terminate on various dates to December 31, 1978. Controls on dividend payments will expire on October 13, 1978.

The company understands that it is presently in compliance with the requirements of the anti-inflation legislation.

